

NOTES TO BASIC FINANCIAL STATEMENTS

City of Los Altos
Notes to Basic Financial Statements
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Los Altos, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

The City incorporated in 1952. The City operates under an elected Council and appointed City Manager form of government and provides the following services: public safety, recreation, community development & engineering, public maintenance, general administrative services and capital improvements. The City has no component units.

B. Basis of Presentation, Measurement Focus and Basis of Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which includes its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Government-Wide Financial Statements

The City's Government-wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities and business-type activities for the City, the primary government, accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These basic financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities and Changes in Net Assets presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability for goods or services is incurred.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Measurement Focus and Basis of Accounting, Continued

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to inter-fund activities, payables, and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities and Changes in Net Assets internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following inter-fund activities have been eliminated:

- Due to, due from other funds
- Transfers in, transfers out
- Internal service fund transactions

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed by the proprietary funds in both the Government-Wide and Proprietary Fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to the same limitations. The City has elected not to follow subsequent private-sector guidance.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide financial statements.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, special assessments, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Measurement Focus and Basis of Accounting, Continued

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

Proprietary Fund Financial Statements

Proprietary Fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Change in Net Assets, and a Statement of Cash Flows for all proprietary funds.

A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements.

Proprietary Funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Change in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability for goods or services is incurred.

Proprietary Funds distinguish operating revenues and expenses and non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund’s principal ongoing operations. The principal operating revenues of the City’s enterprise and internal service funds are charges for customer services, including sewer charges, solid waste fees, and support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Fund Financial Statements

Fiduciary Fund financial statements include a Statement of Fiduciary Net Assets. The City’s Fiduciary Funds are comprised of agency funds used to account for the operating activities and for the special assessment collections pertaining to the North County Library Authority, Raymundo & Avalon Curb and Gutter Districts, and Blue Oak Lane Sewer Improvements. Agency Funds are custodial in nature (assets equal liabilities), do not involve the measurement of results of operations, and are accounted for on the accrual basis of accounting.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Presentation, Measurement Focus and Basis of Accounting, Continued

Internal Service Funds

Internal Service Funds account for services provided to other departments pertaining to the self-insurance dental program, the unemployment insurance, the workers' compensation insurance, and the liability insurance, on a cost reimbursement basis.

Major Funds

The City reports the following major governmental funds:

General Fund - accounts for all financial resources necessary to carry out basic governmental activities of the City that are not accounted for in another funds. The General Fund supports essential City services such as police, fire, street and parks maintenance, maintenance services, community development and recreation activities.

Real Property Proceeds Fund - accounts for the proceeds from the sale of the property.

Capital Project Fund - accounts for the acquisition and construction of major capital projects and plans that are financed by resources other than proprietary funds.

Equipment Replacement Fund - accounts for the revenues and expenditures related to the replacement of certain City equipment and vehicles.

Community Facilities Renewal Fund - accounts for the revenues and expenditures related to the community facilities renewal efforts.

The City reports the following major proprietary funds:

Sewer Fund - accounts for the operation (including waste water treatment) of the City's sewer treatment activities, a self-supporting activity which provides services on a user charge basis.

Solid Waste Fund - accounts for the collection and disposal of solid waste, a self supporting activity that provides service on a user charge basis.

Storm Drain Fund -accounts for the operation of the City's urban runoff and storm drain activities.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Recognition of Interest Liability

In the Governmental Fund Financial Statements, interest expenditures on long-term debt are recognized when payment is made. In the Government-Wide Financial Statements and Proprietary Fund Financial Statements interest expense is recognized as the liability is incurred.

D. Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

E. Cash, Cash Equivalent and Investments

The City pools its available cash for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. *Cash, Cash Equivalents and Investments, Continued*

Beginning this fiscal year, the City placed liquid assets in a managed investment account with the goal of enhancing the diversity of its investment holdings. This managed portfolio complies with state code investment requirements in addition to more restrictive City adopted investment policies. Such funds are held independently in City established investment custodial accounts.

For purposes of reporting cash flows, the City considers each fund's share in the cash and investments pool to be cash and cash equivalents including cash with fiscal agents.

F. *Inventories*

Inventory, consisting of tires, gasoline and paper is stated at cost on an average cost basis and is controlled by a perpetual inventory system which is adjusted to reflect periodic physical counts. Inventories are recorded as expenditures in the General Fund when consumed.

G. *Restricted Cash*

Fiscal agents acting on behalf of the City hold investment funds arising from the proceeds of long-term debt issuances. The funds may be used for specific capital outlays or for the payment of certain bonds, certificate of participation or tax allocation bonds and have been invested only as permitted by specific State statutes or applicable City ordinance, resolution or bond indenture.

H. *Compensated Absences*

Government-Wide Financial Statements

For governmental and business-type activities, compensated absences are recorded as expenses and liabilities as the time is earned by employees.

Fund Financial Statements

For Governmental Funds, compensated absences are recorded as expenditures in the years paid, as it is the City's policy to liquidate any unpaid compensated absences at June 30 from future resources, rather than currently available financial resources. The General Fund is typically used to liquidate compensated absences. In Proprietary Funds, compensated absences are expensed to the various funds in the period they are earned, and such fund's share of the unpaid liability is recorded as a long-term liability of the fund.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Property Taxes

Santa Clara County (County) assesses all properties in the City, and it bills, collects and distributes property taxes to the City. Both secured and unsecured property taxes are levied on January 1. Santa Clara County (County) assesses properties and it bills, collects and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 for the fiscal year.

Secured property tax is due in two installments, on November 1 and February 1. It becomes delinquent after December 10 and April 10, respectively. The City and the County adopted the "alternative method of property tax distribution" known as the Teeter Plan that authorizes the County to allocate 100% of the secured property tax based on levy instead of collection and to retain all delinquent penalties and interest. Unsecured property tax is due on July 1 and becomes delinquent after August 31. Distribution of the unsecured property taxes is based on collections. Collection of delinquent accounts is the responsibility of the County, which retains all penalties. The County also distributes both penalties and interest collected for delinquent unsecured property taxes.

J. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. City policy has set the capitalization threshold for reporting capital assets at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Buildings	50 years
Improvements	30-50 years
Equipment	3-10 years
Infrastructure	30-100 years

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Capital Assets, Continued

In accordance with GASB Statement No. 34, the City has included all infrastructures in its Statement of Net Assets.

The City defines infrastructure as basic physical assets that allow the City to function. The assets include the street system. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, streetlights and traffic control devices (signs, signals and pavement markings). These subsystems were not delineated in the Government-Wide Financial Statements. The appropriate operating department maintains information regarding the subsystems.

For all infrastructure systems, the City has elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The valuation of the City's infrastructure assets are determined based on the original cost using one of the following methods:

- 1) Use of historical records where available
- 2) Standard unit costs appropriate for the construction/acquisition date of the asset
- 3) Present replacement cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date

Accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date, was computed on a straight-line method. The book value was then computed by deducting the accumulated depreciation from the original cost.

K. Long-Term Debt

Government-Wide Financial Statements

Long-term debt and other financial obligations are reported as liabilities in the appropriate activities.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Long-Term Debt, Continued

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

Fund Financial Statements

The Governmental Fund Financial Statements do not present long-term debt, which are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Governmental Funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Proprietary Fund Financial Statements use the same principles as those used in the Government-Wide Financial Statements.

L. Unearned Revenue

Government-Wide Financial Statements

In the Government-Wide Financial Statements, deferred revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as deferred revenues in the Government-Wide Financial Statements are long-term loans receivable and prepaid charges for services.

M. Deferred Revenue

Fund Financial Statements

In the Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants received but not yet earned or available, interest on inter-fund advances receivable, long-term assessments and long-term loans receivable.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

N. Net Asset and Fund Balances

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

In the Fund Financial Statements, fund balances are classified in the following categories:

Beginning in fiscal year 2010-2011, the City has reclassified fund balances into the following five Categories to comply with the Governmental Accounting Standards Board Statement (GASB) No. 54, Fund Balance and Governmental Fund Types. Fund balance is defined as the difference between assets and liabilities.

Nonspendable fund balances will include amounts that cannot be spent because they are either in nonspendable form or they are legally required to be maintained intact. Examples of nonspendable fund balances include inventory and prepaid items.

Restricted fund balances will exist when constraints are placed on the use of those resources that are either externally imposed or imposed by law. In general most reserve funds will fall into this category.

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority (Governing Board or Council).

Assigned fund balances will be amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted, nor committed. The intent can be made by either the governing body itself or a body or official to which the governing body has delegated the authority to (purchasing agent and business official). Appropriated fund balance and the majority of encumbrances will be reclassified into the assigned category.

Unassigned fund balances will represent those funds that have not been assigned, committed, restricted or considered nonspendable. The general fund will be the only fund that will report unassigned fund balance, unless a deficit fund balance resulting from overspending in other funds exist. Fund balance in other funds will either be assigned, committed, restricted or nonspendable unless the fund reports a deficit.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

P. New Pronouncements

In 2011, the City adopted new accounting standards in order to conform to the following GASB Statements:

Governmental Accounting Standards Board Statement (GASB) No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions: The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Governmental Accounting Standards Board Statement (GASB) No. 59 - Financial Instruments Omnibus: This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. There was no impact on the City's net assets as a result of this implementation during the fiscal year.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Cash Deposits

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 47,298,368
Cash and investments held by bond trustee	172,017
Fiduciary funds:	
Cash and Investments	1,350,855
Total cash and investments	\$ 48,821,240

Cash and investments as of June 30, 2011 consist of the following:

Cash on hand	\$ 1,900
Deposits with financial institutions	2,420,333
Investments:	
Bond trust investments	261,361
Liquid investments	30,311,406
Managed investments	15,826,240
Total cash and investments	\$ 48,821,240

B. Investments

Under the provisions of the City's investment policy and in accordance with Section 53601 of the California Government Code, the City is authorized to invest or deposit in the following:

Authorized Investment Type	Maximum Maturity	Maximum % Portfolio	Maximum One Issuer
Local Agency Investment Fund	N/A	N/A	\$50 M
Money Market Mutual Funds	N/A	20%	10%
Certificates of Deposit	3 years	50%	10%
Banker's Acceptance	180 Days	20%	10%
Commercial Paper	180 Days	20%	10%
Repurchase Agreements	15 days	30%	N/A
U.S. Treasury Bills, Notes and Bonds	5 Years	N/A	N/A
U.S. Government-Sponsored Enterprise Agencies	5 Years	N/A	20%
Medium Term Corporate Notes	3 years	15%	5%

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

C. Risk Disclosures

Interest Risk: Interest rate risk is the market rate changes that adversely affect the fair value of an investment. Generally, the sensitivity of an investment fair value to changes in market rates is greater when the maturity of the investment is longer.

Investment held in City Treasury grouped by maturity date at June 30, 2011, are shown below:

Investment Type	Fair Value	Investment Maturities (in years)		
		1 year or Less	2 years	3 years
Money Market	\$ 94,676	\$ 94,676	\$ -	\$ -
Securities of U.S. Government				
Treasury and Agencies:				
Federal Home Loan Bank Bonds (FHLB)	2,018,551	1,204,920	813,631	-
Federal Home Loan Mortg. Corp. Notes (FHLMC)	2,274,533	-	2,274,533	-
Federal National Mortg. Assn. Notes (FNMA)	2,371,825	1,606,840	764,985	-
US Securities	5,842,694	1,205,808	2,633,211	2,003,675
US Corporate Notes	3,223,961	1,051,450	2,172,511	-
Local Agency Investment Funds (LAIF)	30,311,406	30,311,406	-	-
Trust Bond Funds	261,361	172,017	89,344	-
Total	\$ 46,399,007	\$ 35,647,117	\$ 8,748,215	\$ 2,003,675

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is usually measured by the assignment of a rating by a nationally recognized statistical rating organization.

At June 30, 2011, the City's deposit and investments were rated as follows:

	Credit Quality Ratings		Market Value	Par Value
	Moody's	S&P		
Money Market	Aaa	AAA	94,676	94,676
Securities of U.S. Government Agencies:				
Federal Home Loan Bank Bonds (FHLB)	Aaa	AAA	2,018,551	2,000,000
Federal Home Loan Mortg. Corp. Notes (FHLMC)	Aaa	AAA	2,274,533	2,250,000
Federal National Mortg. Assn. Notes (FNMA)	Aaa	AAA	2,371,825	2,350,000
US Securities	Aaa	AAA	5,842,694	5,800,000
Corporate Notes				
General Electric Corp	Aa2	AA+	1,736,699	1,650,000
Bank of New York Mellon	Aa2	AA-	690,619	650,000
WalMart Stores Inc.	Aa2	AA	796,642	750,000
Local Agency Investment Funds (LAIF)	Not Rated		30,311,406	30,311,406
Trust Bond Funds	Aaa	AAA	261,361	261,361
			46,399,007	46,117,443

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

C. Risk Disclosures, Continued

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits.

As of June 30, 2011, the City's bank balance was \$2,247,443 and the corresponding carrying book balance was \$2,420,333. Of the bank balance, \$250,000 was covered by federal depository insurance and \$1,997,443 was collateralized.

Custodial Credit Risk – Investments: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

Investment in State Investment Pool: The City is a voluntary participant in LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool as reported in the accompanying financial statements is based upon the Entity's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

As of June 30, 2011, the City held \$30,311,406 in LAIF, which had invested 5.01% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 5.42% in the previous year. The LAIF fair value factor of 1.001576470 was used to calculate the fair value of the investments in LAIF.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

3. INTERFUND TRANSACTIONS

Fund Financial Statements

A. Transfers

Transfers for the year ended June 30, 2011 were as follows:

		Transfers In				
		General	Capital	Non-Major	Enterprise	
		Fund	Projects	Governmental	Storm Drain	Total
Transfers Out	General Fund	\$ -	\$ 1,500,000	\$ 165,000	\$ 65,000	\$ 1,730,000
	Capital project	-	-	-	-	-
	Equip Replacement	-	204,155	-	-	204,155
	Non-major					
	Governmental Funds	306,608	1,333,150	-	-	1,639,758
	Total	<u>\$ 306,608</u>	<u>\$ 3,037,305</u>	<u>\$ 165,000</u>	<u>\$ 65,000</u>	<u>\$ 3,573,913</u>

Transfers are used to move unrestricted general fund revenues to finance various programs accounted for in other funds based on budgetary authorizations. Additionally, transfers are also used to move revenues from the general fund to the debt service fund as principal and interest payments become due and to fund assigned and approved capital projects

In this reporting year a substantial volume of capital projects were expended and/or completed.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2011, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-depreciable assets:			
Construction in progress	\$ 5,078,113	\$ 1,732,025	\$ 6,810,138
Land	11,539,449	-	11,539,449
Total non-depreciable assets	16,617,562	1,732,025	18,349,587
Depreciable assets:			
Buildings	22,448,417	11,582,865	34,031,282
Improvements	2,702,861	1,969,221	4,672,082
Machinery and equipment	4,091,939	806,882	4,898,821
Infrastructure	19,663,324	-	19,663,324
Total depreciable assets	48,906,541	14,358,968	63,265,509
Less accumulated depreciation	(17,568,291)	(10,893,585)	(28,461,876)
Total depreciable assets, net	31,338,250	3,465,383	34,803,633
Total capital assets	\$ 47,955,812	\$ 5,197,408	\$ 53,153,220

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The following is a summary of capital assets for governmental activities for the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Deletions	Transfer	Balance June 30, 2011
Non-depreciable assets:					
Construction in progress	\$ 4,064,587	\$ 3,614,555	\$ -	\$ (2,601,029)	\$ 5,078,113
Land	11,404,867	126,092	-	8,490	11,539,449
Total non-depreciable assets	15,469,454	3,740,647	-	(2,592,539)	16,617,562
Depreciable assets:					
Buildings	21,685,942	196,196	-	566,279	22,448,417
Improvements	2,598,858	-	-	104,003	2,702,861
Machinery and equipment	3,688,793	364,729	(183,813)	222,230	4,091,939
Infrastructure	17,425,553	537,744	-	1,700,027	19,663,324
Total depreciable assets	45,399,146	1,098,669	(183,813)	2,592,539	48,906,541
Accumulated depreciation:					
Buildings	(6,960,107)	(461,179)	-	-	(7,421,286)
Improvements	(1,141,118)	(91,319)	-	-	(1,232,437)
Machinery and equipment	(2,377,110)	(393,045)	172,813	-	(2,597,342)
Infrastructure	(5,764,224)	(553,002)	-	-	(6,317,226)
Total accumulated depreciation	(16,242,559)	(1,498,545)	172,813	-	(17,568,291)
Total depreciable assets, net	29,156,587	(399,876)	(11,000)	2,592,539	31,338,250
Total governmental activities capital assets, net	\$ 44,626,041	\$ 3,340,771	\$ (11,000)	\$ -	\$ 47,955,812

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The governmental activities depreciation expenses for capital assets for the year ended June 30, 2011 are as follows:

Public Safety	\$	209,220
Public Works		680,855
Community/Cultural Services		434,981
Community Development		36,073
General Government		137,416
Total depreciation expense	\$	1,498,545

The following is a summary of capital assets for business-type activities:

	Balance June 30, 2010	Additions	Deletions	Transfers	Balance June 30, 2011
Non Depreciable assets:					
Construction in progress	\$ 1,638,957	\$ 1,524,837		\$ (1,431,769)	\$ 1,732,025
Total non-depreciable assets	1,638,957	1,524,837	-	(1,431,769)	1,732,025
Depreciable assets:					
Buildings	\$ 10,151,096	\$ -	\$ -	\$ 1,431,769	\$ 11,582,865
Infrastructure	1,969,221	-	-	-	1,969,221
Machinery and equipment	535,409	271,473	-	-	806,882
Total depreciable assets	12,655,726	271,473	-	1,431,769	14,358,968
Accumulated depreciation:					
Buildings	(8,290,974)	(118,208)	-	-	(8,409,182)
Infrastructure	(1,969,149)	(50)	-	-	(1,969,199)
Machinery and equipment	(482,855)	(32,349)	-	-	(515,204)
Total accumulated depreciation	(10,742,978)	(150,607)	-	-	(10,893,585)
Total depreciable assets, net	1,912,748	120,866	-	1,431,769	3,465,383
Total business-type activities capital assets, net	\$ 3,551,705	\$ 1,645,703	\$ -	\$ -	\$ 5,197,408

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Depreciation expense for business-type activities for the year ended June 30, 2011 is as follows:

Sewer	\$ 150,557
Storm drain	<u>50</u>
Total	<u><u>\$ 150,607</u></u>

B. Fund Financial Statements

The Governmental Fund Financial Statements do not present capital assets, which are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

The capital assets of the enterprise funds in the Proprietary Fund Financial Statements are the same as those shown in the business-type activities of the Government-Wide Financial Statements.

5. NET PENSION ASSET

In fiscal year 2009- 2010, the City prepaid a major portion of its unfunded PERS side fund in the amount of \$3,005,795. In 2003 CALPERS combined the retirement plans for all public agencies with “small” plans to reduce the volatility of employer contribution rates. CalPERS also created for each member agency a so-called Side Fund to amortize each agency’s June 30, 2003 unfunded liability over a fixed term at a fixed interest rate. The PERS side fund represents the City Specific liability was that assumed by the City at the time of this CALPERS pooling process. This prepayment has been recorded on the Statement of Net Assets as a Net Pension Asset.

In accordance with GASB Statement No. 27, the net pension asset will be amortized using the same amortization methodology utilized by PERS to calculate the Annual Required Contribution (ARC) each year. A summary of the methodology used is as follows:

Amortization Method	Level Percent of Payroll
Average Remaining Period (as of 6/30/2011)	15 years
Investment Rate of Return	7.75% (net of administrative expenses)
Payroll Growth	3.25%

Interest on the Net Pension Asset (NPA) is calculated as a percentage of the NPA’s balance at the beginning of each year based on the investment rate of return stated above and is added to the balance of the NPA for that year.

A summary of the changes to the NPA for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Governmental Activities	<u>\$ 3,005,795</u>	<u>\$ -</u>	<u>\$ (52,966)</u>	<u>\$ 2,952,829</u>

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

5. NET PENSION ASSET, Continued

In fiscal year 2011-2012, the City opted to prepay an additional \$850,000 of existing unfunded side fund liabilities reducing the remaining such approximate balances to \$860,000 and \$430,000 for miscellaneous and safety respectively.

6. LONG-TERM DEBT

A. Governmental Activities Long-Term Debt

Summary of changes in governmental activities long-term debt for the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Debt Issued	Debt Retired	Balance June 30, 2011	Due in One Year	Due in More Than One Year
Certificate of participation	\$ 2,030,000	\$ -	\$ (85,000)	\$ 1,945,000	\$ 90,000	\$ 1,855,000
Total	<u>\$ 2,030,000</u>	<u>\$ -</u>	<u>\$ (85,000)</u>	<u>\$ 1,945,000</u>	<u>\$ 90,000</u>	<u>\$ 1,855,000</u>

2004 Refunding Certificate of Participation

On November 1, 1996, the City issued \$2,630,000 principal amount of Certificates of Participation (ABAG 38 COPs). The purpose of the ABAG 38 COPs was to finance the partial purchase of the 5.5 acre Saint William School site for public purposes and uses. During 2004 the City issued \$2,500,000 of 2004 Refunding Certificates of Participation to advance refund \$2,390,000 of outstanding principal on the ABAG 38 Certificates of Participation, set up reserve funds, and to pay related issuance costs. The entire ABAG 38 Certificates of Participation had been paid off by June 30, 2004. This advance refunding was undertaken to reduce total future debt service payments.

At June 30, 2011, future debt service requirements for the 2004 Refunding were as follows:

For the Year Ending June 30, 2011	Principal	Interest	Total
2012	90,000	75,282	165,282
2013	95,000	72,808	167,808
2014	95,000	69,956	164,956
2015	100,000	66,918	166,918
2016	105,000	63,568	168,568
2017-2021	580,000	257,432	837,432
2022-2026	715,000	128,775	843,775
2027	165,000	7,012	172,012
Total	<u>\$ 1,945,000</u>	<u>\$ 741,751</u>	<u>\$ 2,686,751</u>

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

6. LONG-TERM DEBT, Continued

B. Non-City Obligation

The following bonds are not reported in the City's financial statements as they are special obligations payable solely from and secured by specific revenue sources as described in the resolutions and official statements of the respective issues. Neither the faith and credit nor the taxing power of the City is pledged for payment of these obligations.

	Balance June 30, 2010	Debt Issued	Debt Retired	Balance June 30, 2011	Due in One Year	Due in More Than One Year
Raymundo Curb & Gutter	219,000	-	(16,000)	203,000	17,000	186,000
Avalon Curb & Gutter	49,000	-	(7,000)	42,000	8,000	34,000
Blue Oak Lane	662,880	-	-	662,880	-	662,880
Total	\$ 930,880	\$ -	\$ (23,000)	\$ 907,880	\$ 25,000	\$ 882,880

Raymundo & Avalon Special Assessment Districts

The Raymundo Curb & Gutter Assessment District (District) Improvement Bond was issued on August 3, 2005 to provide financing for the street improvements in that District. Avalon Drive improvement bonds were issued for a similar purpose in 2000. The bonds are payable from a special property tax levied to those residents living within the District.

Blue Oak Lane Special Assessment District

On November 5, 2009, Limited Obligation Improvement Bonds were issued for a newly formed Blue Oak Lane Sewer Assessment District (series 2009) to finance the acquisition and construction, by the City, of sanitary sewer improvements serving properties within the subject assessment district. These bonds are issued upon and secured by individual parcel levied assessments to be included in the annual property tax billings annually. The Bonds mature in 2039, were issued in a principal amount of \$662,880 and are subject to semi-annual debt service payments administered by the City.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

7. COMPENSATED ABSENCES

The City's compensated absences at June 30, 2011, were as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Balance Due Within One Year	Balance Due in More Than One Year
Governmental	\$ 1,553,342	\$ 1,220,694	\$ (1,187,746)	\$ 1,586,290	\$ 396,573	\$ 1,189,717
Business-type activities	49,070	45,746	(57,785)	37,031	228	36,803
Total	\$ 1,602,412	\$ 1,266,440	\$ (1,245,531)	\$ 1,623,321	\$ 396,801	\$ 1,226,520

8. RISK MANAGEMENT

ABAG PLAN Corporation

The City is exposed to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and natural disasters for which the City is insured through the Association of Bay Area Governments Plan (ABAG).

ABAG covers general liability claims in an amount up to \$10,000,000. The City has a deductible or uninsured liability of up to \$100,000 per claim. Once the City's deductible is met, ABAG becomes responsible for payment of all claims up to the upper limit. During the year ended June 30, 2011, the City contributed \$262,716 for current year coverage.

ABAG is governed by a Board of Directors (BOD) consisting of representatives from member municipalities. The BOD controls the operations of ABAG, including selection of management and approval of operating budgets.

The City's contributions to ABAG equal the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

The ABAG financial statements may be obtained from ABAG, P.O. Box 2050, Oakland, California, 94604.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

8. RISK MANAGEMENT, Continued

The City has an excess insurance policy for Workers' Compensation claims up to the statutory limits. The City has a \$250,000 deductible as of June 30, 2011. During the year the City contributed \$139,952 for current year coverage.

As of June 30, 2011, \$50,000 of revolving funds was held in trust on behalf of the City by the workers' compensation third party claims administrator (TPA). The City will receive the funds upon termination of services with the TPA.

Liability for Uninsured Claims

The GASB requires municipalities to record their liability for uninsured claims and to reflect the current portion of this liability as an expenditure in their financial statements. As discussed in the section above, the City has coverage for such claims, but it has retained the risk for the deductible or uninsured portion, of these claims. GASB Statement No. 10, "*Financial Reporting for Risk Financing and Related Insurance Issues*," requires that this amount be separately identified and recorded as a liability.

Changes in the balances of claims liabilities during the past four years were as follows:

	June 30,			
	2011	2010	2009	2008
Unpaid claims, beginning of year	\$ 2,107,901	\$ 1,205,455	\$ 1,159,345	\$ 834,764
Incurred claims and changes in estimates	458,940	1,363,751	691,915	993,859
Claim payments	(159,322)	(461,305)	(645,805)	(669,278)
Unpaid claims, end of year	\$ 2,407,519	\$ 2,107,901	\$ 1,205,455	\$ 1,159,345

In conformance with GASB Statement No. 10, the City obtained an independent actuarial valuation of all outstanding Workers Compensation and Liability claims. The report presented a valuation as of June 30, 2011 and projected values through 2013. The 2011 estimates presented above reflect the estimated present value of open claims as developed in this actuarial report. The estimated amount of claims and judgments due within one year is \$529,066.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. SELF-FUNDED REIMBURSEMENT DENTAL PLAN

The City provides a self-funded reimbursement based dental plan. The City's contribution for this plan is accounted for in the Dental Reimbursement Fund. The City contributed \$60 per month for each full-time budgeted position. This amount was increased to \$75 beginning for the fiscal year 11-12 budget year. The funds accumulated are used to reimburse employees and their dependents for covered dental claims. All full-time salaried employees and their dependents are eligible to participate. The City Council members are also eligible to participate. However, if an employee or dependent is covered for dental costs by an insurance carrier or another dental plan, the employee is required to first submit the dental claims to the insurance carrier or other plan. There are no administrative charges for this plan. The Dental Reimbursement Fund maintains a positive fund balance with contributions and reimbursements for the past four fiscal years as follows:

Fiscal Year Ended	Contribution Amount	Reimbursement Amount
2007-2008	96,480	99,866
2008-2009	96,480	112,690
2009-2010	92,213	111,342
2010-2011	90,506	106,000

The dental plan year commences January 1st of each calendar year. Benefits were recently increased to an annual maximum dental reimbursement of \$1,500 for each employee and \$1,000 for each dependent. Any remaining balance in the fund for each dental year is carried forward to the following year. In subsequent dental years, the maximum dental coverage for both employees and dependents are increased annually based on the Consumer Price Index but not to exceed 3%.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

10. PENSION PLANS

California Public Employees' Retirement System Plan

Plan Description – The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814. Effective with the June 30, 2003 actuarial valuation, PERS required that retirement plans with less than 100 members be included in risk pools. These risk pools are cost-sharing multiple-employer defined benefit retirement plans that pool risk. Both the City's safety and miscellaneous retirement plans are included in these risk pools.

Funding Policy – Active plan members are required by State statute to contribute 8% for miscellaneous and 9% for safety employees of their annual covered salary. The City employer makes the contributions required of City employees on their behalf and for their account, which amounted to \$937,879 for the year ended June 30, 2011. The City was required to contribute at an actuarial determined rate of 20.247% for the period from July 1, 2010 through June 30, 2011 of annual covered payroll for safety employees and 14.604% of annual covered payroll for miscellaneous employees. The contribution rate is established annually and may be amended by PERS. Included in the employer contribution rates are the amortization of Side Funds which were created to account for the difference between the funded status of the pool and the funded status of the City plans at the time of joining the risk pool. In the prior year the City paid down the safety Side Fund liability using planned designated reserves in the amount of \$3 million. Consequently, as of June 30, 2011, the estimated balance of the Side Fund for the public safety plan was reduced to approximately \$440,000. The estimated balance of the Side Fund for the miscellaneous plan is approximately \$1.8 million as of June 30, 2011 of which \$850,000 was paid off in the subsequent period.

Annual Pension Cost – For FY2010-2011, the City's annual pension cost of \$1,846,328 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions utilized by PERS include (a) 7.75% investment rate of return (net of administrative expenses) and (b) projected salary increases range from 3.25% to 14.45%. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

10. PENSION PLANS, Continued

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)		Percentage of APC Contributed	Net Pension Obligation
	Miscellaneous	Safety		
06/30/2009	1,103,628	917,412	100%	-
06/30/2010	1,172,340	670,609	262%	-
06/30/2011	1,131,312	715,110	100%	-

Funding Status as of the Most Recent Actuarial Date - The City retirement plans for miscellaneous and safety employees are part of the PERS risk pool for cities and other government entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City's miscellaneous and safety employee plans is no longer available or disclosed.

11. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The City Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan administered by the City. The Plan provides healthcare benefits to eligible retirees and their dependents through the PERS healthcare program (PEMHCA). Benefit provisions are established and may be amended through agreements and memorandums of understanding between the City, its non-represented employees and the unions representing City employees. The Plan does not issue a financial report.

The City provides a retiree medical contribution using the "5% unequal method," where the retiree contribution is increased annually until it equals the PEMHCA minimum contribution (\$105 per month for 2010 and \$108 per month for 2011). In 2011, the City's contribution averaged \$50.36 per month. The City does not provide contributions for retiree dental, vision or life insurance benefits.

Funding Policy: The City continues to pay for retiree healthcare benefits on a pay-as-you go basis. This reporting year the City contributed \$24,460 for current benefit payments. Retired plan members and their beneficiaries pay the annual premium cost not paid by the employer.

As of June 30, 2011, \$200,000 has been set aside in the General Fund as a reserve with future budgets projected to make increased annual contributions thereafter.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

11. OTHER POST EMPLOYMENT BENEFITS (OPEB), Continued

Annual OPEB Cost and Net OPEB Obligation: The City's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's Net OPEB obligation:

Annual required contribution	\$ 250,000
Interest on net OPEB obligation	17,000
Amortization of net OPEB obligation	(30,000)
Annual OPEB cost (expense)	237,000
Payments made	(24,460)
Increase in net OPEB obligation	212,540
Net OPEB obligation - beginning of year	391,492
Net OPEB obligation - end of year	604,032

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for FY 2010-2011 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	Cumulative OPEB Obligation
6/30/09	207,000	8.0%	190,000	190,000
6/30/10	221,000	9.0%	201,495	391,495
6/30/11	237,000	10.0%	212,540	604,032

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

11. OTHER POST EMPLOYMENT BENEFITS (OPEB), Continued

Funded Status and Funding Progress: The funded status of the Plan as of January 1, 2010, the Plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 1,662,000
Actuarial value of Plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	1,662,000
Funded ratio (actuarial value of Plan assets/AAL)	0%
Covered payroll (active Plan participants)	10,884,000
UAAL as a percentage of covered payroll	15.3%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the January 1, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses) and a 3% general inflation assumption. The PEMHCA minimum was assumed to annually increase by 4.5%. The UAAL is amortized as a level percentage of projected payrolls over 30 years on a closed basis commencing in 2009.

Payroll Increases were assumed to follow an aggregate growth of 3.25%. Merit increases were applied per the CalPERS 1997-2002 Experience Study as were population Mortality, Withdrawal and Disability factors.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

12. CONTINGENCIES

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City's insurance programs are reasonably sufficient to cover any potential losses should an unfavorable outcome materialize

13. OTHER INFORMATION

Joint Powers Agreements

The City participates in joint ventures through Joint Powers Authorities (JPAs) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the JPAs are not those of the City.

Each JPA is governed by a board consisting of representatives from each member agency. Each board controls the operations of its respective JPA, including selection of management and approval of operating budgets, independent of any influence of member agencies beyond their representation of the board.

Joint Sewer System Authority (JSSA)

The JSSA, formed in 1968 by a joint exercise of powers among the cities of Palo Alto, Mountain View, and Los Altos, constructed, maintains and operates sewage treatment facilities serving its member cities. The City of Palo Alto acts as administrator for JSSA and bills each member its share of the operating costs. The audited financial statements can be obtained by contacting the City of Palo Alto at P.O. Box 10250, Palo Alto, CA 94303.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

13. OTHER INFORMATION, Continued

North County Library Authority (NCLA)

The NCLA, formed in 1985 by a joint exercise of powers agreement between the City and the Town of Los Altos Hills, provides library services for member residents. The NCLA was created to provide financing for capital improvements and additional services by the public libraries serving the area. Although the City owns the libraries and their sites, the County of Santa Clara (County) is responsible for all library operations. However, since 1985, the NCLA has levied a voter approved special parcel tax to compensate for service reductions due to cutbacks by the County. The special tax has been collected by the County, transferred to the City, on behalf of NCLA, and then transferred back to the County for the specifically requested services provided by the libraries within the NCLA's service area. The City performs administrative and accounting services for NCLA. In 1991, the NCLA issued Special Tax Bonds in the amount of \$3,645,000. As of June 30, 2011, the Special Tax Bonds outstanding debt amounted to \$330,000. In 2010, NCLA successfully passed an updated twenty year parcel tax extending the assessment term to 2030. No new debt was issued in association with this election. The audited financial statements can be obtained by contacting the NCLA at One North San Antonio Road, Los Altos, CA 94022.

Community Health Awareness Council (CHAC)

The CHAC was organized as a joint powers agency between the cities of Los Altos, Mountain View, the Town of Los Altos Hills, the Los Altos Elementary School District, the Mountain View Elementary School District, the Mountain View-Los Altos Union High School District, and the Whisman School District. The CHAC provides prevention and intervention services concentrating on positive alternatives to health abuse and self-destructive behaviors for its members' constituents. The audited financial statements can be obtained by contacting the CHAC at P.O. Box 335, Mountain View, California, 94042.

14. SPECIAL ITEM

On November 30, 2007, the City entered a purchase and sale agreement with the City of Palo Alto to sell the City's share of the Los Altos Treatment Plant (LATP) to the City of Palo Alto for \$6.5 million. The City received the first of three installment payments at the close of escrow in January 2008 less title and escrow fees and estimated preliminary development costs of \$400,000. Any unused portion of this \$400,000 will be refunded to the City by the end of the fifth year. In the prior year the City received the third and final regular installment of \$2,166,667 leaving the balance of development costs to be collected by 2012.

City of Los Altos
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

15. DEVELOPER AGREEMENTS

Developer Agreement

On September 14, 2010 the City approved a development agreement between the City and the David and Lucile Packard Foundation for the Downtown Headquarters Project located at 343 Second Street. The underlying project is a private development with no partnership, joint venture or other association of any kind between City and the owner.

Under the terms of the agreement the owner shall pay to the City a sum of \$3.4 million as a condition of occupancy. On the occupancy date, owner shall either make a single payment of full amount concurrently with and as a condition to the issuance of the occupancy approvals or, in the alternative, the owner may elect to make three equal installment payments commencing on the occupancy date itself. Remaining payments are to be made on the next following two anniversaries thereof and any unpaid principal balance shall bear interest at an interest rate equal to the City's average earnings rate. The actual date of occupancy remains contingent upon the progress of construction.

Land Sale/Purchase Agreement

On September 14, 2010 the City approved an Option to Purchase Agreement for the City owned property located at 230 First Street and 400 Main Street for price of \$3.1 million and a minimum project scope of a two-story building with 31,000 square feet. The agreement is contingent upon a series of milestones and feasibility phases defined within the agreement. In the current year the City received \$300,010 in initial purchase option payments marking the end of an initial feasibility term. These dollars are recorded as revenue and held with the Real Property Proceeds funds, the balance of which is assigned for future projects.

16. OTHER COMMITMENTS

A summary of remaining authorized CIP project balances end of year balances for all City funds by service area follows:

	<u>Year End Balance</u>
Streets & Roadways	\$2,179,490
Pedestrian Safety	2,326,771
Infrastructure & Facilities	8,641,156
Parks	548,062
Sewer	4,131,892
Facilities & Technology	<u>1,580,323</u>
	\$19,407,695